Bankcard Payment System in the People's Republic of China

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EXECUTIVE SUMMARY

An efficient payment system is necessary to support efficient trading in goods and services within open market economies. Information technology has been used by many of these economies to achieve efficiency in their payment systems. The People's Republic of China, an emerging market economy, regards an efficient electronic payment system as imperative for economic liberalization, for supporting low cash usage and improving monetary control within the economy. By means of the "Golden Card" project, it aimed for a flexible, convenient, fast, secure and seamless electronic payment system beneficial to economic performance. Although efficiencies in the electronic payment system were achieved in some of the developed regions, there have been teething problems such as low public confidence in the system, weak technological support and inadequate regulatory framework that prevent the full realization of a supportive payment system for overall economic development.

BACKGROUND

Importance of the Payment System

In many countries, the payment system had been taken for granted until the financial crisis in the 1970s which brought into focus its importance to the stability of an economy (Bank for International Settlements, 1994) and resulted in the increasing use of technology in this system (Hopton, 1983; Mester, 2000; Guibourg, 2001).

An efficient payment system is necessary to support trading in goods and services because payment constitutes an essential practice in the commerce of any economy, and prompt settlement has major implications on the stability and liquidity of the economic system. There have been suggestions that an efficient payment system is necessary for economic advancement, particularly in developing and emerging market economies (OECD,

1993; Balino et al., 1994; Folkers-Landau et al., 1994; Bhala, 1995; Listfield & Montes-Negret, 1994, 1995; Sato & Humphrey, 1995; Balino et al., 1996; Cecchetti & Krause, 2001). Governments of these economies are aware that a competent payment system can help improve macroeconomic management, resources utilization and the control of monetary aggregates. On the global front, the trends in business globalisation and financial market liberalisation have also propelled these governments to address the need for competency in their payment systems in order to remain relevant in the global trade and financial systems.

Technology has been used to automate the payment system for the purpose of injecting the system with unprecedented efficiencies (Morelli, 1986; Folkerts-Laudau et al., 1994; Balino et al., 1994). The benefits to an economy of information technology applications in the payment system are apparent in the speed, traceability and liquidity that the technology can provide over and above manual processing. Payment systems are becoming more electronic in many open trade economies. Developing and emerging market economies cannot afford to be locked out of the global market because of technology inadequacies, as trade is their lifeline for economic well being and development.

The People's Republic of China, like many other developing and emerging market economies, has been experiencing pressures to reform its payment system since the initiation in 1979 of its economic reform program and its transition from a command to a market-based economy. The initial desire of the Chinese government in constructing an efficient electronic payment system was to lessen the high level of cash usage and improve monetary control within the economy. The high usage of cash has given rise to a sharp increase in counterfeit currency activity in the Chinese economy, especially when its doors were first opened to world trade (Jinrongshibao, 22/5/95). In addition to counterfeit currency in the system, an inefficient payment system can result in flight of capital or unauthorised withdrawal of capital. It has been estimated that flight of capital totalled to about US$27 billion in the early 1990s with more than $7 billion of China's foreign exchange reserves leaking out of the country's financial reserve system without trace. It was intended that the construction of a national electronic payment system (known as "China National Advanced Payment System" or "CNAPS") would also curb unauthorised leakage from the financial system. High value payments have to be cleared by the Central Bank in this modern electronic payment system, and this would provide a better means of tracing the flow of funds than the manual system. Although government departments and affiliated organizations have been conforming to the policy of using the electronic payment system for payment settlement, the electronic payment system is still relatively underused among the Chinese. Attempts by the government and banks to cultivate mass acceptance (especially among private individuals) for the Chinese payment system has been confronted with several daunting obstacles. In fact, the poorly developed electronic payment system in China has been accused of stifling overall economic development (Lee, 2000; Business China, 2001).

The Chinese government is keen to resolve problems and difficulties that prevent the full realization of a supportive and efficient electronic payment system, especially in view of its recent successful admission into the World Trade Organization (WTO).

The "Golden Card" Project

In 1993, the Chinese government initiated the "Golden Card" project[1] that aimed to build a modern nationwide electronic card-based payment infrastructure facilitating monetary management. This initiative was driven by the vision that the widespread use of a bankcard as a payment alternative would enable better monetary control and low cash usage within